

Annual Report

Agricultural Producer Security Trust Fund

Year Ended June 30, 2017

Issued February 5, 2018



Division of Trade and Consumer Protection
Bureau of Business Trade Practices
Agricultural Producer Security Section

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Wisconsin Agricultural Producer Security Trust Fund
Statement of Revenues and Expenditures, and Cash Balances
rounded to (0s)

| | FY 17 | FY 16 | FY 15 |
|--|---------------------|---------------------|---------------------|
| Revenues | | | |
| Assessments | | | |
| Grain Dealers | \$ 781,450 | \$ 832,260 | \$ 972,940 |
| Grain Warehouse Keepers | 48,360 | 54,290 | 79,120 |
| Milk Contractors | 268,530 | 39,430 | 47,400 |
| Vegetable Contractors | 182,130 | 81,850 | 90,330 |
| Total Assessments | 1,280,470 | 1,007,830 | 1,189,790 |
| Licenses Fees & Administrative Revenues | | | |
| Grain Dealers | 26,450 | 22,320 | 31,040 |
| Grain Warehouse Keepers | 282,800 | 279,670 | 272,720 |
| Milk Contractors | 147,160 | 152,470 | 139,090 |
| Vegetable Contractors | 145,490 | 128,610 | 166,000 |
| Total License Fees & Administrative Revenue | 601,900 | 583,070 | 608,850 |
| Interest Revenue | 37,980 | 17,230 | 5,580 |
| Grain Dealer – Audits for Marketing Boards | 9,760 | 7,320 | 3,280 |
| Total Revenues | \$ 1,930,110 | \$ 1,615,450 | \$ 1,807,500 |
| Expenditures | | | |
| Salaries and Fringe | | | |
| Grain Dealers | 250,230 | 256,420 | 250,290 |
| Grain Warehouse Keepers | 195,720 | 200,620 | 217,990 |
| Milk Contractors | 323,100 | 248,650 | 310,260 |
| Vegetable Contractors | 106,370 | 87,200 | 102,260 |
| Total Salaries and Fringe | 875,420 | 792,890 | 880,800 |
| Supplies and Services | | | |
| Grain Dealers | 66,160 | 75,880 | 84,010 |
| Grain Warehouse Keepers | 49,490 | 47,670 | 51,870 |
| Milk Contractors | 65,640 | 76,770 | 75,910 |
| Vegetable Contractors | 16,270 | 18,210 | 21,890 |
| Total Supplies and Services | 197,560 | 218,530 | 233,680 |
| Default Payments to Producers | (75,000) | (20) | 7,083,360 |
| Miscellaneous Expense | - | 120 | - |
| Total Expenditures | \$ 997,980 | \$ 1,011,520 | \$ 8,197,840 |
| Net Change in Fund Balance | 932,130 | 603,930 | (6,390,340) |
| Beginning Cash Balance | 7,017,760 | 6,413,830 | 12,804,170 |
| Ending Cash Balance | \$ 7,949,890 | \$ 7,017,760 | \$ 6,413,830 |

Wisconsin Agricultural Producer Security Trust Fund
Notes to Statement of Revenues and Expenditures, and Cash Balances

OVERVIEW

The Wisconsin Agricultural Producer Security Trust Fund (the Fund) is established under Section 25.463, Wis. Stats., and is administered by the Department of Agriculture, Trade and Consumer Protection (the Department). The Fund is maintained within the Department's Agricultural Producer Security Program (the Program). The Program is governed by Ch. 126 of the Wisconsin Statutes. The purpose of the Program is to provide some level of assurance that milk, vegetable and grain producers will be paid for their products. Generally, persons who purchase grain, milk or vegetables from Wisconsin producers, and grain warehouse keepers who store producer owned grain, are required to comply with the provisions of Ch. 126, Wis. Stats. Collectively, these parties are defined as "Contractors". Ch. 126, Wis. Stats., contains a variety of provisions to ensure that Contractors are able to pay producers. However, if a Contractor does fail to pay, producers may be able to make a claim against the Fund.

Fund revenues primarily consist of assessments and license fees paid by licensed Contractors. Fund expenditures include administrative expenditures of operating the Program, and any costs associated with insurance or other backing for the fund. Further, should a contractor fail to pay a grain, milk or vegetable producer, that producer may be able to make a claim against the Fund for partial reimbursement.

The State of Wisconsin Investment Board oversees the management of investment activities for the Fund.

Note 1 – Accounting Methodology

The Statement of Revenues and Expenditures, and Cash Balances are presented using the cash basis method of accounting. Revenues are recognized when received and expenditures are recognized when disbursed.

All transactions for the Fund are recorded using STAR, which is the State of Wisconsin's accounting and human resource management system. The Wisconsin Department of Administration is responsible for the overall management of this system. The Department's Division of Management Services is responsible for the overall accounting for the Fund, including processing revenue and expenditure transactions.

In addition, state law requires the department to account for the balance in the Fund that is attributable to each of the four contractor license types within the program (Grain Dealers, Grain Warehouse Keepers, Milk Contractors, and Vegetable Contractors).¹ Accordingly, the Division of Trade and Consumer Protection (Division) maintains more detailed revenue, expenditure, and cash balance reports, which are reconciled with STAR on a monthly basis.

¹ Section 126.05(2), Wis. Stats.

Note 2 – Statements of Revenues, Expenditures, and Cash Balances by Industry Group

Revenues, expenditures, and cash balances for each of the four license programs are shown on pages 5 - 8.

| GRAIN DEALER | | | | |
|--|---------------------|---------------------|---------------------|--|
| CASH BALANCE and DETAILED REVENUES & EXPENDITURES | | | | |
| rounded to (0s) | | | | |
| Revenue Detail | | | | |
| <u>Description</u> | FY 17 | FY 16 | FY 15 | |
| Assessments | \$ 15,200 | \$ 30,790 | \$ 94,600 | |
| Deferred Payment Assessments | 765,140 | 799,490 | 876,380 | |
| License Fees | 24,550 | 20,420 | 27,240 | |
| Penalties/Late Fees | 3,010 | 3,880 | 5,760 | |
| Audit Services for Marketing Boards | 9,760 | 7,320 | 3,280 | |
| Interest (allocated) | 18,040 | 7,840 | 2,210 | |
| Total Revenues | \$ 835,700 | \$ 869,740 | \$ 1,009,470 | |
| Expenditure Detail | | | | |
| Personnel Expenditures | | | | |
| Personal Services | 188,300 | 189,550 | 180,580 | |
| Fringe Benefits | 61,930 | 66,870 | 69,710 | |
| Subtotal | 250,230 | 256,420 | 250,290 | |
| Supplies and Services | | | | |
| Travel & Training | 16,350 | 14,440 | | |
| Telecommunication | 1,830 | 860 | | |
| Rent & Lease | 21,210 | 22,050 | | |
| Maintenance & Repairs | 10 | 10 | | |
| Professional/Contractual Services | 3,850 | 19,300 | | |
| Other Administrative & Operating | 17,130 | 16,730 | | |
| Insurance | 1,310 | 1,110 | | |
| Printing | 80 | 70 | | |
| Supplies | 4,390 | 1,310 | | |
| Subtotal | 66,160 | 75,880 | 84,010 | |
| Other Expenditures | | | | |
| Default Payments | (75,000) | (20) | - | |
| Miscellaneous Expenditure | - | 30 | - | |
| Total Expenditures | \$ 241,390 | \$ 332,310 | \$ 334,300 | |
| Net Change in Cash Balance | 594,310 | 537,430 | 675,170 | |
| Beginning Cash Balance | 5,546,280 | 5,008,850 | 4,333,680 | |
| Ending Cash Balance | \$ 6,140,590 | \$ 5,546,280 | \$ 5,008,850 | |

GRAIN WAREHOUSE KEEPER
CASH BALANCE and DETAILED REVENUES & EXPENDITURES

rounded to (0s)

Revenue Detail

| <u>Description</u> | FY 17 | FY 16 | FY 15 |
|-----------------------|-------------------|-------------------|-------------------|
| Assessments | \$ 47,730 | \$ 53,400 | \$ 78,560 |
| License Fees | 279,600 | 278,270 | 269,820 |
| Penalties/Late Fees | 3,830 | 2,290 | 3,460 |
| Interest (allocated) | 2,590 | 1,150 | 330 |
| Total Revenues | \$ 333,750 | \$ 335,110 | \$ 352,170 |

Expenditure Detail

Personnel Expenditures

| | | | |
|-------------------|----------------|----------------|----------------|
| Personal Services | 150,500 | 133,700 | 147,670 |
| Fringe Benefits | 45,220 | 66,920 | 70,320 |
| Subtotal | 195,720 | 200,620 | 217,990 |

Supplies and Services

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Travel & Training | 10,920 | 8,750 | |
| Telecommunication | 790 | 670 | |
| Rent & Lease | 18,420 | 19,190 | |
| Maintenance & Repairs | 10 | - | |
| Professional/Contractual Services | 1,800 | 3,050 | |
| Other Administrative & Operating | 13,210 | 13,660 | |
| Insurance | 960 | 810 | |
| Printing | 40 | 40 | |
| Supplies | 3,340 | 1,500 | |
| Subtotal | 49,490 | 47,670 | 51,870 |

Other Expenditures

| | | | |
|---------------------------|---|----|---|
| Default Payments | - | - | - |
| Miscellaneous Expenditure | - | 30 | - |

| | | | |
|---------------------------|-------------------|-------------------|-------------------|
| Total Expenditures | \$ 245,210 | \$ 248,320 | \$ 269,860 |
|---------------------------|-------------------|-------------------|-------------------|

| | | | |
|----------------------------|-------------------|------------------|--------------------|
| Net Change in Cash Balance | 88,540 | 86,790 | 82,310 |
| Beginning Cash Balance | 46,430 | (40,360) | (122,670) |
| Ending Cash Balance | \$ 134,970 | \$ 46,430 | \$ (40,360) |

MILK CONTRACTOR
CASH BALANCE and DETAILED REVENUES & EXPENDITURES
rounded to (0s)

Revenue Detail

| <u>Description</u> | FY 17 | FY 16 | FY 15 |
|-----------------------|-------------------|-------------------|-------------------|
| Assessments | \$ 267,440 | \$ 38,440 | \$ 47,050 |
| Monthly License Fee | 141,060 | 148,070 | 134,830 |
| Annual License Fee | 3,000 | 2,950 | 3,050 |
| Penalties/Late Fees | 4,190 | 2,440 | 1,560 |
| Interest (allocated) | 16,460 | 7,850 | 2,930 |
| Total Revenues | \$ 432,150 | \$ 199,750 | \$ 189,420 |

Expenditure Detail

Personnel Expenditures

| | | | |
|-------------------|----------------|----------------|----------------|
| Personal Services | 224,100 | 167,750 | 207,570 |
| Fringe Benefits | 99,000 | 80,900 | 102,690 |
| Subtotal | 323,100 | 248,650 | 310,260 |

Supplies and Services

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Travel & Training | 5,630 | 4,550 | |
| Telecommunication | 3,020 | 2,580 | |
| Rent & Lease | 24,180 | 25,280 | |
| Maintenance & Repairs | 180 | 220 | |
| Professional/Contractual Services | 3,960 | 18,200 | |
| Other Administrative & Operating | 22,180 | 22,940 | |
| Insurance | 1,570 | 1,300 | |
| Printing | 90 | 90 | |
| Supplies | 4,830 | 1,610 | |
| Subtotal | 65,640 | 76,770 | 75,910 |

Other Expenditures

| | | | |
|---------------------------|---|----|-----------|
| Default Payments | - | - | 1,012,790 |
| Miscellaneous Expenditure | - | 30 | - |

| | | | |
|----------------------------|---------------------|---------------------|---------------------|
| Total Expenditures | \$ 388,740 | \$ 325,450 | \$ 1,398,960 |
| Net Change in Cash Balance | 43,410 | (125,700) | (1,209,540) |
| Beginning Cash Balance | 6,132,670 | 6,258,370 | 7,467,910 |
| Ending Cash Balance | \$ 6,176,080 | \$ 6,132,670 | \$ 6,258,370 |

VEGETABLE CONTRACTOR
CASH BALANCE and DETAILED REVENUES & EXPENDITURES
rounded to (0s)

Revenue Detail

| <u>Description</u> | FY 17 | FY 16 | FY 15 |
|-------------------------------------|-------------------|-------------------|-------------------|
| Assessments | \$ 180,210 | \$ 81,300 | \$ 90,180 |
| License Fees | 128,360 | 111,250 | 150,750 |
| Nonparticipating Potato License Fee | 17,130 | 17,160 | 14,050 |
| Penalties/Late Fees | 1,920 | 750 | 1,350 |
| Interest (allocated) | 890 | 390 | 110 |
| Total Revenues | \$ 328,510 | \$ 210,850 | \$ 256,440 |

Expenditure Detail

Personnel Expenditures

| | | | |
|-------------------|----------------|---------------|----------------|
| Personal Services | 73,640 | 59,050 | 68,780 |
| Fringe Benefits | 32,730 | 28,150 | 33,480 |
| Subtotal | 106,370 | 87,200 | 102,260 |

Supplies and Services

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Travel & Training | 1,650 | 590 | |
| Telecommunication | - | - | |
| Rent & Lease | 5,610 | 6,110 | |
| Maintenance & Repairs | - | - | |
| Professional/Contractual Services | 1,100 | 4,450 | |
| Other Administrative & Operating | 6,350 | 6,530 | |
| Insurance | 430 | 360 | |
| Printing | 10 | 10 | |
| Supplies | 1,120 | 160 | |
| Subtotal | 16,270 | 18,210 | 21,890 |

Other Expenditures

| | | | |
|---------------------------|---|----|-----------|
| Default Payments | - | - | 6,070,570 |
| Miscellaneous Expenditure | - | 30 | - |

| | | | |
|---------------------------|-------------------|-------------------|---------------------|
| Total Expenditures | \$ 122,640 | \$ 105,440 | \$ 6,194,720 |
|---------------------------|-------------------|-------------------|---------------------|

| | | | |
|----------------------------|-----------------------|-----------------------|-----------------------|
| Net Change in Cash Balance | 205,870 | 105,410 | (5,938,280) |
| Beginning Cash Balance | (4,707,620) | (4,813,030) | 1,125,250 |
| Ending Cash Balance | \$ (4,501,750) | \$ (4,707,620) | \$ (4,813,030) |

Note 3 – Revenues

Assessments

The Division maintains billing and account receivable systems that track assessments by individual contractor and by license year. Each contractor's assessment amount is calculated by multiplying the "assessment rate" by the contractor's total procurements (or storage capacity in the case of grain warehouse keepers).

Generally, assessment rates are calculated using a complex formula that is based on the contractor's current ratio and debt-to-equity ratio. The assessment rate is higher for contractors having weaker financial positions. The assessment rate for contractors that are not required to file a financial statement is a fixed rate based on the number of years the contractor contributed to the Fund. The Department calculates the annual assessment at the beginning of each license year.²

License Fees and Inspection Fees

License fees must be paid to obtain a license. Whereas assessment rates are partially based on financial ratios, license fees are based simply on the overall purchase volume or storage capacity of the licensee.

- Grain Dealer License Fee Detail
 - Nonrefundable license processing fee of \$25.
 - Base License fee of \$0.0010 per bushel, and rounding the product to the nearest \$100, except license fee may not be less than \$100 or more than \$10,000. Less any fee credits for which the grain dealer qualifies.
 - Additional locations fee (for each location greater than one) of \$100
 - Audit services for marketing boards. While on site for routine grain dealer audits, the bureau regularly performs compliance exams on behalf of the Wisconsin Corn Marketing Board and the Wisconsin Soybean Marketing Board to confirm grain dealers are properly reporting check-off obligations to those organizations. The Program then bills the marketing boards for time spent doing this work.

- Grain Warehouse Keeper License and Inspection Fee Detail
 - Nonrefundable license processing fee of \$25.
 - Additional locations license fee of \$25 for each grain warehouse location.
 - Inspection Fees. \$0.0025 per bushel, rounding the product to the nearest \$1,000, except the inspection fee may not be less than \$1,000 or more than \$10,000. Less any fee credits for which the grain warehouse keeper qualifies.
 - Supplemental inspection fee of \$275 for each location other than the main location.

- Milk Contractor License Fee Detail
 - Nonrefundable license processing fee of \$25.
 - Monthly License fees, are due by the 25th day of each month in the amount of \$0.0015 for each 100 pounds of producer milk that the milk contractor procured in this state during the preceding month, less any fee credits for which the milk contractor qualifies.

² For more details about the assessment calculation, please see Wisconsin Statutes Sections 126.15, 126.30, 126.46, 126.60 and Wisconsin Administrative Code Sections ATCP 99.135, ATCP 99.255, ATCP 100.135 and ATCP 101.255. Further, assessment calculators are available by clicking into the various areas of https://datcp.wi.gov/Pages/Programs_Services/AgriculturalProducerSecurity.aspx

- Vegetable Contractor License Fee Detail
 - Nonrefundable license processing fee of \$25.
 - Contract Obligation fees of \$25 plus \$0.0875 cents for each \$100 in contract obligations reported, less any fee credits for which the vegetable contractor qualifies.
 - A processing potato buyer may elect not to participate in the fund.
 - A processing potato buyer that has elected not to participate in the fund pays the lesser of \$2,000 or \$25 plus \$0.0875 for each \$100 in contract obligations reported.

Late Payment Surcharges and Other Penalties

There are several penalties and surcharges under both the license fee and the assessment provisions of the producer security law, including:

- Late fee for failing to file an annual license renewal application and license fee payment. (\$100)
- Late fee for failing to pay a monthly license fee when due (milk contractors only). (20% of the amount due)
- Late fee for failing to file a required financial statement. (\$100)
- Surcharge for operating without a license. (\$500)
- Late fee for failing to pay an assessment installment by the required due date. (\$50 or 10% of the amount due; whichever is greater)

Interest Revenue

The Wisconsin Department of Administration deposits interest into the fund at the end of each month. The interest rate is determined monthly based on the overall return on the State of Wisconsin’s entire cash holdings. The division allocates interest revenue among the subaccounts based on each subaccount’s prior month ending balance as a percentage of the entire fund. Except that, in the event that a subaccount has a negative balance, that subaccount is ignored and the interest is allocated among the subaccounts with positive balances. Generally, the monthly interest rates received by the fund rise and fall along with other interest rates throughout the broader economy. For the Fiscal Years ended June 30, 2017, 2016 and 2015; the Fund received interest revenue of \$37,978.28, \$17,224.46 and \$5,585.40, respectively. This means that average annualized interest rates for these three years were 0.48%, 0.25% and 0.09%, respectively.

Note 4 – Expenditures

Employee Expenditures

The Department has authority to allocate FTEs within the license type subaccounts. The Department strives to place each FTE in the industry subaccount for which that person performs most of their duties. Positions that cannot be directly tied to an individual industry subaccount are allocated proportionally among the four subaccounts. The Division has periodically made revisions to the allocations to ensure they reflect the actual work being done as accurately as possible.

Allocation of the authorized FTEs, as of June 30, 2017, is shown in the schedule below.

| | Grain Dealer | Grain Warehouse Keeper | Milk Contractor | Vegetable Contractors | Total |
|----------------------------------|--------------|------------------------|-----------------|-----------------------|--------------|
| Agricultural Auditor | 2.80 | 2.20 | 3.20 | 0.80 | 9.00 |
| Agricultural Auditor Supervisor | 0.25 | 0.25 | 0.25 | 0.25 | 1.00 |
| Financial Specialist | | | 0.50 | 0.20 | 0.70 |
| License Permit Program Associate | 0.60 | 0.40 | | | 1.00 |
| Unassigned (Vacant – 0.25 FTE) | | | | | 0.25 |
| TOTAL | 3.65 | 2.85 | 3.95 | 1.25 | 11.95 |

Supplies and services expenditures are charged to the individual subaccounts based on employee allocations. For example, the Wisconsin Department of Administration collects rent for office space from the department. The Department allocates the rent expenditures across the industry license type categories based on the number of FTEs in each individual program. Therefore, the allocation of FTEs among the four subaccounts has a direct impact on supplies and services expenditure amounts listed in the schedules above.

Note 5 –Fund Balances and Statutory Trigger Amounts

License Fee Credits

The crediting of excess Fund balances over the minimum threshold is an integral component of the program. Should the balance attributable to any one of the four industry groups exceed the specified minimum threshold, the department must use a portion of the excess as a credit to the next year’s license fees owed by contributing contractors in that particular industry license type. The minimum balance threshold for each license type is as follows:

- Grain Dealers \$ 2,000,000 on May 31 [s.126.11(6), Wis. Stats.]
- Grain Warehouses Keepers \$ 300,000 on May 31 [s.126.26(5), Wis. Stats.]
- Milk Contractors \$ 4,000,000 on February 28 [s.126.42(3), Wis. Stats.]
- Vegetable Contractors \$ 825,000 on November 30 [s.126.56(6), Wis. Stats.]

In the event any of the industry groups exceed the thresholds listed above, the Department, in the following license year, issues a license fee credit to each contributing contractor who files a timely application. For the Grain Dealer, Milk Contractor and Vegetable Contractor license groups, the amount of the credit is fifty percent (50%) of the excess above the minimum balance threshold. In the case of the Grain Warehouse Keeper license group, the amount of the credit is twelve and a half percent (12.5%) of the excess. The credit is allocated among the contractors based on the total amount paid in license fees over the four preceding license years.

The milk contractor and grain dealer license groups received license fee credits in each of the three fiscal years reported in this document. Credits used in FY 17 were: Milk Contractor \$327,124 and Grain Dealer \$299,100.

Minimum and Maximum Fund Balances

Ch. 126, Wis. Stats., permits the Department to modify fund assessments by administrative rule. Further, the statute *requires* the Department to modify assessments in order to maintain fund balances greater than the minimum and less than the maximum amounts.³ These amounts are as follows:

| | Minimum Statutory Balance | Actual Balance as of June 30, 2017 | Maximum Statutory Balance |
|-------------------------|------------------------------|---------------------------------------|------------------------------|
| Grain Dealers | \$ 1,000,000 | \$ 6,140,594.71 | \$ 6,000,000 |
| Grain Warehouse Keepers | \$ 200,000 | \$ 134,966.89 | \$ 1,000,000 |
| Milk Contractors | \$ 3,000,000 | \$ 6,176,076.50 | \$ 12,000,000 |
| Vegetable Contractors | \$ 800,000 | (\$ 4,501,749.98) | \$ 3,000,000 |
| Entire Fund | \$ 5,000,000 | \$ 7,949,888.12 | \$ 22,000,000 |

The Department is nearing completion of the rule making process which would modify fund assessments for grain dealers to decrease its fund balance below its maximum and modify fund assessments for vegetable contractors to increase its fund balance above its minimum.

Assessment Holiday

Pursuant to administrative rules, contractors who have been contributing contractors for at least five years may forego paying any fund assessments for the following license year if, as of the specified date, the overall fund balance is at least \$11,000,000, and fund balance attributable to the industry group meets the specified minimum balance:

- Grain Dealers \$ 3,000,000 as of May 31 [s.ATCP 99.126(5), Wis. Adm. Code]
- Grain Warehouses Keepers \$ 500,000 as of May 31 [s.ATCP 99.126(5), Wis. Adm. Code]
- Milk Contractors \$ 6,000,000 as of Feb. 28 [s.ATCP 100.135(10), Wis. Adm. Code]
- Vegetable Contractors \$ 1,500,000 as of Nov. 30 [s.ATCP 101.245(4)]

However, Emergency Rules were passed for the milk and grain dealer programs for the 2016-17 license years to temporarily lower the required overall fund balance required for a holiday to at least \$5,000,000. Those Emergency Rules expired and none of the 4 license programs received an assessment holiday for the 2017-18 license year because overall fund balance was below \$11,000,000.

Note 6 – Individual Security

The department holds security from some licensed contractors for the benefit of producers. The security can be filed in the form of an irrevocable letter of credit, commercial surety bond, certificate of deposit, or cash. Security is held for various reasons which include the following:

- **Disqualified:** Contractors who have filed a financial statement that shows negative owners equity when they are first applying for a license must file individual security. These contractors do not contribute to the fund.
- **Deferred Payment:** Grain dealers that use deferred payment and have debt to equity ratios that do not meet the minimum statutory requirement must file individual security in addition to contributing to the fund.⁴

³ Section 126.88, Wis. Stats.

⁴ The minimum requirement is a debt to equity ratio of 4:1

- **Estimated Default Exposure in Excess of \$20 million.** Contributing contractors who do not meet minimum financial ratios and whose estimated default exposure exceeds \$20 million dollars are required to post security in an amount equal to the difference between the contractor's estimated default exposure and \$20 million.⁵ These contractors receive a proportionate reduction in their annual assessments.
- **Voluntary:** Contributing contractors whose estimated default exposure exceeds the maximum amount that can be paid out of the fund for any one default (60% of the total fund balance) may voluntarily file security to cover the difference. These contractors receive a proportionate reduction in their annual assessments.
- **Other:** If a contributing contractor is unable to file a required financial statement for initial licensing, is otherwise unable to comply with statutory provisions, or presents an especially excessive risk to producers, the department may require individual security.

As of June 30, 2017, the department held a total of \$119,589,850 in individual securities. The total amount of security held as of June 30, 2017, by type of security and reason it is held, can be seen in the table below.

| | Bonds | Letter of Credit | CD's and other cash equivalents | Total Security |
|------------------------------------|----------------------|-------------------|---------------------------------|-----------------------|
| Grain Dealer | | | | |
| Disqualified | | | | \$ - |
| Deferred Payment | 100,000 | 928,495 | 3,909,825 | 4,938,320 |
| Exposure Greater than \$20 Million | 5,119,125 | | | 5,119,125 |
| Voluntary | 55,365,718 | | | 55,365,718 |
| Total | \$ 60,584,843 | \$ 928,495 | \$ 3,909,825 | \$ 65,423,163 |
| Milk Contractor | | | | |
| Disqualified | \$ - | \$ 473,200 | \$ - | \$ 473,200 |
| Exposure Greater than \$20 Million | 41,894,900 | | 3,587,587 | 45,482,487 |
| Voluntary | 7,711,000 | | | 7,711,000 |
| Other | | 500,000 | | 500,000 |
| Total | \$ 49,605,900 | \$ 973,200 | \$ 3,587,587 | \$ 54,166,687 |
| Grand Total | | | | \$ 119,589,850 |

Note 7 – License History

In the producer security program, each industry group has a separate license and expiration. The statutory expirations are:

- Grain Dealers, August 31 [s.126.11(4)(g), Wis. Stats.]
- Grain Warehouses Keepers, August 31 [s.126.26(3)(f), Wis. Stats.]
- Milk Contractors, April 30 [s.126.41(3)(d), Wis. Stats.]
- Vegetable Contractors, January 31 [s.126.56(4)(e), Wis. Stats.]

⁵ The current ratio must be at least 1.25:1 and the debt to equity ratio must be no more than 4:1 for grain dealers, grain warehouse keepers, and vegetable contractors; and 2:1 for milk contractors.

The tables below show the total number of licenses issued for each program and the total obligations, or for Grain Warehouse the storage capacity, reported on the license application. The Grain Dealer table also shows the total bushels purchased and total deferred payments made.

| GRAIN DEALER | | | | |
|---------------------|-----------------|------------------------|--------------------------|-------------------|
| License Year | Licenses Issued | Total Bushels Reported | Total Purchases Reported | Total DP Reported |
| 2017 / 2018 | 230 | 482,348,475 | \$2,182,501,509.51 | \$263,797,486.18 |
| 2016 / 2017 | 232 | 433,995,530 | \$2,022,015,455.36 | \$249,167,940.94 |
| 2015 / 2016 | 244 | 385,365,675 | \$2,046,937,724.98 | \$263,722,370.99 |
| 2014 / 2015 | 249 | 351,788,691 | \$2,403,340,977.00 | \$260,941,793.00 |
| 2013 / 2014 | 258 | 400,823,098 | \$2,919,177,409.31 | \$245,494,567.87 |
| 2012 / 2013 | 274 | 378,966,400 | \$2,365,294,942.53 | \$226,152,173.63 |
| 2011 / 2012 | 288 | 454,962,837 | \$2,257,068,777.21 | \$127,216,085.10 |
| 2010 / 2011 | 287 | 361,803,947 | \$1,699,023,816.74 | \$91,623,760.92 |
| 2009 / 2010 | 292 | 338,283,870 | \$1,739,085,053.18 | \$81,360,205.63 |
| 2008 / 2009 | 304 | N/A | \$1,543,566,358.32 | \$62,374,687.49 |
| 2007 / 2008 | 315 | N/A | \$939,289,124.70 | \$56,623,614.24 |
| 2006 / 2007 | 324 | N/A | \$691,707,480.83 | \$46,379,702.57 |
| 2005 / 2006 | 308 | N/A | \$759,116,757.41 | \$61,841,188.11 |
| 2004 / 2005 | 291 | N/A | \$790,598,092.27 | \$52,122,067.23 |

| GRAIN WAREHOUSE KEEPER | | |
|-------------------------------|-----------------|----------------|
| License Year | Licenses Issued | Total Capacity |
| 2017 / 2018 | 92 | 108,940,953 |
| 2016 / 2017 | 93 | 99,330,658 |
| 2015 / 2016 | 96 | 111,836,055 |
| 2014 / 2015 | 99 | 108,651,388 |
| 2013 / 2014 | 101 | 109,542,279 |
| 2012 / 2013 | 103 | 102,174,345 |
| 2011 / 2012 | 106 | 99,369,562 |
| 2010 / 2011 | 108 | 138,478,653 |
| 2009 / 2010 | 111 | 121,502,437 |
| 2008 / 2009 | 132 | 185,189,691 |
| 2007 / 2008 | 131 | 186,263,430 |
| 2006 / 2007 | 141 | 183,476,129 |
| 2005 / 2006 | 136 | 157,764,306 |
| 2004 / 2005 | 133 | 143,703,824 |

| MILK CONTRACTOR | | |
|------------------------|-----------------|-------------------|
| License Year | Licenses Issued | Total Obligations |
| 2017 / 2018 | 114 | \$ 5,442,967,296 |
| 2016 / 2017 | 114 | \$ 5,600,605,835 |
| 2015 / 2016 | 115 | \$ 7,094,983,256 |
| 2014 / 2015 | 120 | \$ 5,996,509,973 |
| 2013 / 2014 | 120 | \$ 5,612,011,214 |
| 2012 / 2013 | 119 | \$ 5,544,595,746 |
| 2011 / 2012 | 118 | \$ 4,465,441,273 |
| 2010 / 2011 | 114 | \$ 3,527,503,717 |
| 2009 / 2010 | 115 | \$ 4,873,420,108 |
| 2008 / 2009 | 116 | \$ 4,469,117,061 |
| 2007 / 2008 | 114 | \$ 3,930,467,857 |
| 2006 / 2007 | 109 | \$ 3,925,469,873 |
| 2005 / 2006 | 115 | \$ 3,995,556,599 |
| 2004 / 2005 | 111 | \$ 3,038,044,137 |

| VEGETABLE CONTRACTOR | | |
|-----------------------------|-----------------|-------------------|
| License Year | Licenses Issued | Total Obligations |
| 2017 / 2018 | 35 | \$ 306,769,790 |
| 2016 / 2017 | 36 | \$ 271,984,516 |
| 2015 / 2016 | 40 | \$ 322,047,777 |
| 2014 / 2015 | 39 | \$ 315,109,222 |
| 2013 / 2014 | 39 | \$ 315,395,738 |
| 2012 / 2013 | 37 | \$ 236,101,361 |
| 2011 / 2012 | 37 | \$ 307,748,089 |
| 2010 / 2011 | 36 | \$ 282,116,910 |
| 2009 / 2010 | 37 | \$ 213,589,108 |
| 2008 / 2009 | 36 | \$ 174,331,307 |
| 2007 / 2008 | 36 | \$ 171,318,055 |
| 2006 / 2007 | 39 | \$ 159,293,822 |
| 2005 / 2006 | 40 | \$ 164,116,406 |
| 2004 / 2005 | 39 | \$ 137,200,177 |

Note 8 – Defaults

Allens, Inc.

On October 28, 2013, a licensed vegetable contractor, Allens, Inc., filed a voluntary petition for relief under Chapter 11 bankruptcy (reorganization). The Chapter 11 was subsequently converted to a Chapter 7 liquidation. The department revoked Allens vegetable contractor license on November 18, 2013. Between September 6, 2013 and December 20, 2013, twenty-two default claims were filed with the department against Allens. Nineteen claims were allowable, three claims were disallowed, and payments were made in July 2015 from

the Agricultural Producer Security Fund in the aggregate amount of \$6,120,689.28. Cash security of \$50,123.74 filed by Allens was used to partially reimburse the Agricultural Producer Security Fund. The Wisconsin Department of Justice is representing the department in ongoing legal proceedings and pursuing reimbursement for these claim payments.

As of June 30, 2014, the default process was in its final stages and funds to pay the default had been set aside (encumbered) in the state accounting system. As a result, the state accounting system recognized these payments as a FY2014 expenditure, even though checks weren't issued until after the end of the fiscal year. For the purposes of this annual report, we have elected to reflect the payments in FY2015, the fiscal year in which payments were made.

Liberty Milk Marketing Cooperative

On December 19, 2014, a licensed milk contractor, Liberty Milk Marketing Cooperative, defaulted on payments to milk producers and entered state receivership on December 22, 2014. DATCP initiated a Recovery Proceeding and received twenty-seven default claims from milk producers. All twenty-seven claims were allowed and payments were made in June 2014 from the Agricultural Producer Security Fund in the aggregate amount of \$1,012,789.82. The Wisconsin Department of Justice is representing the department in the receivership proceedings and pursuing reimbursement for these claim payments.

Default Payments Recovered

In August of 2013 payments totaling \$125,001.09 were made to producers as a result of the default of GB Elevator, LLC. With the assistance from the Wisconsin Department of Justice, the department reached a settlement in a lawsuit regarding these claim payments and in May of 2017, received reimbursement of \$75,000.

In December of 2012 payments totaling \$1,982.07 were made to producers as the result of the default of Cuff Nutrition Services, LLC who filed for Chapter 7 Bankruptcy in the United States Bankruptcy Court Eastern District of Wisconsin. In January of 2016, the department received \$21.68 as its share of the proceeds distributed in the bankruptcy proceedings.